Research Paper | Business Management | E-ISSN No : 2454-9916 | Volume : 10 | Issue : 3 | March 2024

IMPACT OF NPAS ON LONG-TERM SUSTAINABILITY OF BANKS IN ECONOMY: AN OVERVIEW

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ABSTRACT

For Indian banks, the problem of non-performing assets is a serious one. Non-performing assets (NPAs) signify a high probability of many loan defaults, which have a negative impact on the profitability and net worth of the bank and devalue its assets. Banks seem to be performing well in terms of NPA statistics. As a way to eliminate NPAs, the government has attempted a wide range of options. Having zero rate NPAs is exceptionally incomprehensible. However, basically Indian banks can have a go at rivalling unfamiliar banks to keep up with global norm. This paper exhibits the What is NPAs? Different types of NPAs, factors contribute to NPAs, various authors review regarding this study, analysis of Gross, Net NPAs, percentage of Net NPAs to Advances ratios it indicates Asset Quality of banks, graphical analysis of historical bank Indices regarding future sustainability.

KEYWORDS: NPAs, Gross and Net NPAs, Asset Quality

INTRODUCTION

It is a term used to describe loans or advances that are in default or are overdue in terms of payments. When payments for the principal or interest on a credit card account are late or not made at all, the account is considered delinquent. When the moneylender suspects that the credit agreement has been violated and the account holder is unable to satisfy his obligations, an advance is considered defaulted.

- Following an extended period of non-payment by the borrower, a bank's asset report includes nonperforming assets (NPAs).
- To put it another way, a large number of NPAs over an unspecified period of time might indicate to the bank's controllers that its financial health is in jeopardy.
- According to the amount of time overdue and the potential of recoupment, NPAs might be considered an unsatisfactory, doubtful, or unfortunate resource.
- Any security or auctioning the advance at an important markdown to an assortment organisation might be options for banks to recover their misfortunes.

In the accounting report of a bank or other financial institution, non-performing resources are listed. The bank will demand the borrower to swap any resources that were pledged as a part of the obligation agreement after a prolonged period of non-instalment. The loan expert may discount the resource as a dreadful obligation and then give it at a discount to an assortment organisation in the event that no resources were pledged.

Obligation is sometimes referred to as nonperforming if it has not been paid in full for 90 days. Assuming that each individual credit arrangement is followed, how much time has elapsed for 90 days was the norm? A credit can be delegated a nonperforming resource anytime during the term of the advance or at its development.

The different categories of NPA are:

- **Substandard NPA:** That particular NPA that is past due for a period of time that is either exactly or roughly equal to a year.
- **Doubtful NPA:** It remains in the Substandard NPA category for a period of time equal to or less than a year.
- **Loss Assets:** The Reserve Bank of India (RBI) review indicates that loss assets occur when non-performing assets (NPAs) are viewed as a misfortune caused by the bank or monetary organization.

The variables that add to Non-Performing Assets (NPA) are as per the following:

- Loans from the bank to individuals, groups, and other entities whose dependability is questionable and who face numerous difficult obstacles.
- Banks are unable to lessen their losses by fully appreciating their own degree of capital or advance misfortune at any given point in time.
- The organizations' advertisers are directing the resources elsewhere.
- Banks attempting to fund impractical projects.
- Inadequate methods for obtaining and sharing credit information among commercial banks and ineffective collection of debts from late payers.

The NPAs affect the financial framework.

- This reduces the banks' advantages.
- A bank's or other financial institution's capital sufficiency is weakened by this.

- Banks are now reluctant to grant advances and are dealing with 0% challenges. Consequently, the creation of new credit is halted.
- Rather than the bank growing advantageous, the banks start to concentrate on managing credit risk.
- • As a result of NPA, the assets ultimately cost money.

Reasons for NPAs in India

- A significant amount of non-performing assets (NPA) is attributed to the fact that public sector banks extend a substantial amount of credit to various industries.
- A sizable loan from SBI that Kingfisher Airlines was unable to repay contributed to its financial troubles.
- India had a thriving economy prior to the global financial crisis of 2008.
- In an effort to ensure that the prosperous times would last, banks gave corporations large credit extensions during this period. That being said, historical patterns are not always repeated in the future.
- Repayment of debts could have been enhanced by low incomes. The increase in non-performing assets (NPAs) at public sector banks can be attributed to this factor.
- The relaxation of corporate lending standards was a significant factor in the rise in non-performing assets. I should have done a thorough analysis of their credit score and financial status.
- NPAs have been largely caused by the priority lending (PSL) industry. MSMEs, housing, education, and agriculture are some of the priority industries.
- School loans make up 20% of nonperforming assets (NPAs), according to SBI estimates.

REVIEW OF LITERATURE

Understanding how important the banking sector is to an economy, NPAs has grabbed the attention of a large number of professionals from all over the world. NPAs have been the subject of a number of investigations. In this section, prior studies on the impact of non-performing assets (NPAs) on banks' long-term manageability are described.

Bakshi (1998) He investigated in his study, "NPAs Management in Banks," how resources had a health code framework in 1998, but the norm was weak. When it comes to direct non-performing assets (NPAs), the RBI is familiar with prudential criteria such as resource classification, acknowledgement of pay, and standard provisioning. As a result of the standard NPA presentation, net NPAs and gross NPAs are decreasing. **Prashanth K Reddy (2002**) in his thesis titled, **"A comparative study of Non-Performing Assets in India in the Global context - similarities and dissimilarities, remedial measures"** emphasised that India's monetary sector has evolved rapidly in terms of aspects such as loan cost liberation, reduction for probable future usage requirements, and obstacles to passage. However, the slowness of development on the key institutional views is cause for concern. To be effective, any changes aimed at resolving the NPA issue would have to touch every aspect of the legal, national, and administrative apparatus. **Zala & Heenaba (2014)** in his thesis titled, **"Comparative analysis of impact of NPAS on profitability of selected public and private bank centres in India"** an opportunity to express their views on NPAs For Indian banks, the issue of non-performing assets (NPAs) is a major one. Non-performing assets are also higher in public sector banks (NPA). The NPA has been reduced as a result of various measures implemented by the government. Negligible non-performing assets (NPAs) are almost unimaginable to have. The bank should adopt the bank's executives' approach for reducing or eliminating NPAs in the banks: embracing organised NPA. **Varuna** Agarwala, **Nidhi** Agarwala **(2019)** -they stated in there publication- **"A critical review of non-performing assets in the Indian banking industry"** The number of non-performing assets (NPAs) is the most revealing indication when it comes to assessing the soundness of a country's banking sector. For this research, the purpose is to evaluate the different banks' exclusive focus on the NPA throughout the period of 2010-2017 by analysing their development design. We will also examine the impact of various bank groupings on financial services, such as the State Bank of India (SBI) and its partners, as well as nationalised banks and private local banks. Santosh Kumar Das **(2021)**- in his article-**"NPAs and profitability in Indian banks: an empirical analysis"** A significant source of acquisition for financial intermediaries such as commercial banks is promoting their loans. Due to growing credit disappointments, the number of non-performing loans has grown substantially in recent years, which has severely impacted their capacity to earn income. Researchers studied 39 public and private banks between 2005 and 2019 in order to discover the reasons of non-performing assets (NPA) as well as their net profit as a consequence. We discovered that non-performing assets (NPAs) had a detrimental effect on the profitability of Indian banks using a variety of bank-specific and macroeconomic productivity indices. In order to enhance their bottom lines, banks should, according to the research, cut their non-performing assets (NPAs) and operational expenditures.

Nitya Garg (2021) in his article- **"Factors Affecting NPAs in Indian Banking Sector"** The motivation behind this study is to distinguish the determinants in view of investigation from past written works and significantly macroeconomic and bank explicit variables which are influencing NPAs utilizing the general weight examination and to approach a model to foresee future NPAs utilizing various relapse models utilizing SPSS. Discoveries of the review will go about as framework for monetary experts and policymakers to forestall the change of its performing resources into NPAs and furthermore help in legitimate administration of banks and furthermore in the recuperation of economy.

Utpal Chattopadhyay (2016) in his paper– **"Study of nonperforming assets in Indian banks - A brief literature review"** stated that NPAs are observed all around the world are a drag on banks and unfavourably influence financial turn of events. Controllers demand making the banks protected by directing them for giving sufficient funding to retain such loaning disappointments. Discoveries: In order to maintain the financial stability of the bank and the whole monetary system, non-performing resources must be addressed. **Karampal Narwal (2021)** in his article– **"Banking Industry and Non-**

Performing Assets: A Literature Review" express his view: The reason for the current review is to assess existing examinations on the fierce issue of non-performing resources in financial area. The fundamental goal is to exemplify the alternate points of view accessible in the writing connected with NPA. The review gives the examination holes that win in the space of NPA with a concentration to reveal the future exploration which can increase the value of the writing in this specific circumstance. The review uncovers that regardless of a wide accessible writing, a far-reaching examination on NPA may assist with perceiving the issue well as well as clear the way towards appropriate taking care of it. **Inchara P M Gowda (2019)** in his article– **"Implications of NPAs on the Profitability of SCBs** – A Comparative Study of Public, Private and Foreign Banks"- NPAs are tormenting a wide range of banking organizations including booked business banks (SCBs) and parts of unfamiliar banks. NPAs have been antagonistically influencing the monetary exhibition of SCBs as well as various areas of the economy. The frequency of NPAs and their suggestions on the monetary outcomes contrast starting with one gathering of SCBs then onto the next. For this reason, pertinent insights for a time of a decade, 2008-09 to 2017-18, are gathered and utilized. **B.Selvarajan (2013)** in his research –**"A Study on Management of Non-Performing Assets in Priority Sector reference to Indian Bank and Public Sector Banks (PSBs)-** The subject of hefty duties in India was overlooked. Many initiatives have been taken to resolve the issue of historical non-performing assets (NPAs) that have not been determined on the bank's balance sheets in response to the recommendations of the Narasimham board of trustees and the Verma panel. From every angle, it's clear that no one has taken the time to think out the best course of action for dealing with this problem. According to all reports, there is no consensus on how to proceed with the proper preparations for resolving this issue. The issue of NPA isn't restricted to just Indian public area banks; however, it wins in the whole financial industry. If by some stroke of good luck banks had observed their credits actually, the terrible obligation issue might have been contained in the event that not wiped out. **Alice Priya (2017)** - in her article-Future of Banking performance: **"Impact of NAPs with reference to public sector banks"** NPAs (non-performing assets) are banks' advances to customers for whom they have not yet received payment. Credits are a wellspring of resource for the bank, on which premium and head instalments are made that make a surge of income. An elevated degree of NPA diminishes the noteworthiness of the banks, which straightforwardly influences their productivity and total assets. This study inspects ways of working on the working of assets and pay from resources by the method of interest.

OBJECTIVES OF THE STUDY

Bank financial performance is impeded by non-performing assets, which have a declining edge and a larger provisioning need for doubtful liabilities. There was a huge gap in previous studies on the NPA's impact when they were polled, taking everything into consideration. That's why researchers focused their attention on the impact of non-performing assets (NPAs) on bank management and asset quality in India's public and private sectors. The review has been done considering the accompanying targets:

- To know the topic of non-performing assets (NPA).
- To investigate the connection among NPAs and performance of banks.
- To Analyse the NPAs and various bank Indices, Asset quality of banks in India.

DATA & METHODOLOGY

Bank annual reports, the Indian Banking Association Journal, and Reserve Bank of India factual tables on Indian banks were used to compile additional data for this research. This research fully based on secondary data which is from banks audited financial statements and reports. Methodology which is used in this research comparative analysis between NPAs and stock market various indices.

ANALYSIS & INTERPRETATION

Table.1 shows the Gross and Net NPAs from past Ten years includes both public and private sector banks by analysing these Trends at initial stages from 2010-11 to 2014-15 Gross NPAs are increasing slowly but in the year 2015-16 to 2017-18 there was a rapid increase in Gross NPAs more than doubled compare to last trends but Net NPAs are gradually maintained. In that time Reserve Bank of India (RBI) expresses that, banks will keep on confronting crumbling in their non-performing resources (NPAs) or terrible credits because of the ongoing monetary circumstances in the ongoing financial year.

YEARS	GROSS NPAs (Rs.in Crore)	NET NPAs (Rs.in Crore)
2010-11	67,247	27,444
2011-12	94,186	38,216
2012-13	1,29,056	59,437
2013-14	1,54,838	78,763
2014-15	2,05,880	1,03,541
2015-16	4,09,603	2,17,948
2016-17	4,77,594	3,04,876
2017-18	6,97,632	3,33,055
2018-19	5,84,364	2,07,296
2019-20	5,94,260	1,81,000
2020-21	6,78,214	1,83,404
2021-22	5,95,606	1,64,764
2022-23	8,14,972	1,71,322

Source: Year End Finanical Statements

Table.1 Gross NPAs Both Public And Private Sector Banks In India

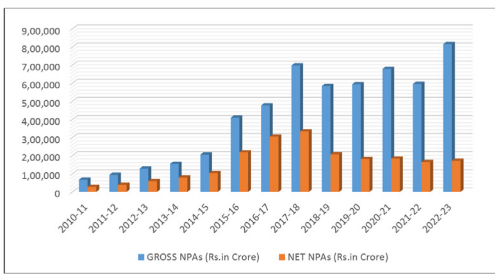


Fig.1 Gross & Net NPAs of Public And Private Sector Banks

Table.2 Shows Net NPAs and Net Profit of both public and private banks by analysing these trends Net NPAs are maintained by banks are nominal when compare to Gross NPAs but coming to profit margins year to year changes gradually and in some years, banks posted Net losses i.e., 2017-18 to 2019-20 and coming to 2019-20 we are all know that due to pandemic COVID maximum banks are posted losses and that is Highest ever loss since last 2 decades.

YEAR	NET NPAs (Rs.in Crores)	NET PROFIT (Rs.in Crores)
2010-11	27,444	45,041
2011-12	38,216	55,289
2012-13	59,437	62,365
2013-14	78,763	69828
2014-15	1,03,541	82,372
2015-16	2,17,948	666
2016-17	3,04,876	55,384
2017-18	3,33,055	-7,464
2018-19	2,07,296	-38,933
2019-20	1,81,000	-63406
2020-21	1,83,404	8,747
2021-22	1,64,764	9,356
2022-23	1,71,322	78,325

Source: Year End Finanical Statements

Table.2 Net NPAs And Net Profit of Public And Private Sector Banks

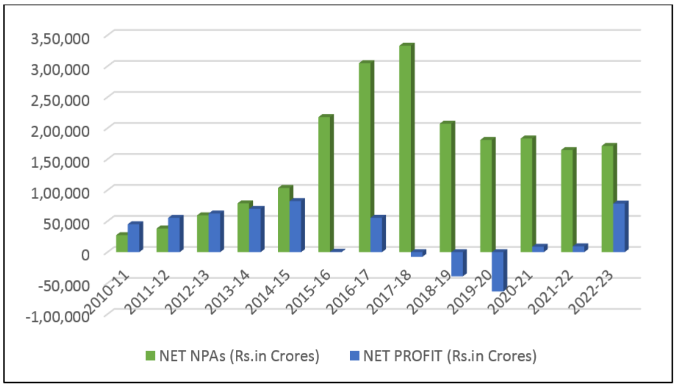


Fig.2 Net NPAs And Net Profit of Public And Private Sector Banks

Table.3 shows the percentage of Advances to both Gross and Net NPAs.Net NPA to advances ratio is **the ratio of the Net NPA to the Net Advances**. It assesses the institution's general health and the quality of its loans. The low number of provisions for delinquent debts is what leads to net non-performing assets. The company's liquidity and profitability are impacted by the increased Net NPA amount. Preferably, no bank needs a NPA on its hands, yet now and then it is unavoidable when financial cycle declines. As yet anything short of 1% would be viewed as great administration. Private Banks, for example, HDFC Bank reliably keeps up with low NPAs. Such banks are likely to have NPAs on their credit card business, where lending is done without collateral. These ratios show the entire Asset quality of bank by analysing these trends in the year 2010-11, 2011-12 asset quality of banks were good and later on year-by-year percentages ware beyond 1% and asset quality was not up to mark.

YEAR	GROSS NPAs (Rs.in Crores)	% Of Gross NPAs to Gross Advances	NET NPAs (Rs.in Crores)	% Of Net NPAs to Net Advances
2010-11	67,247	2.11	27,444	0.74
2011-12	94,186	2	38,216	0.8
2012-13	1,29,056	2.11	59,437	1.13
2013-14	1,54,838	2.28	78,763	1.19
2014-15	2,05,880	3.4	1,03,541	1.9
2015-16	4,09,603	6.8	2,17,948	4
2016-17	4,77,594	7.5	3,04,876	4.1
2017-18	6,97,632	8.7	3,33,055	5.05
2018-19	5,84,364	7.8	2,07,296	3.5
2019-20	5,94,260	7.2	1,81,000	2.6
2020-21	6,78,214	7.3	1,83,404	2.5
2021-22	5,95,606	6.9	1,64,764	1.9
2022-23	8,14,972	8.5	1,71,322	2.2

Source: Year End Finanical Statement

Table.3 Asset Quality of Public And Private Sector Banks

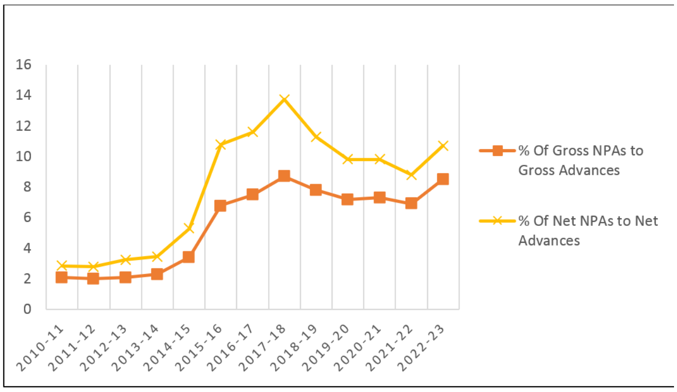


Fig.3 Asset Quality of Public And Private Sector Banks

Bank Nifty Index:

NIFTY bank, also known as Bank NIFTY, is the index of banking stocks maintained by the National Stock Exchange (NSE). Among the most actively traded indices in the banking industry's futures and options market is the Bank NIFTY, an Indian stock index. Due to its strong correlation and heavy weighting with the NIFTY, the NSE's benchmark index, this index has become increasingly important to Indian traders and investors.

Investment professionals and managers of mutual funds frequently use the Bank NIFTY as a benchmark. When used as a performance benchmark, it provides investors with information about the overall performance of banking stocks as well as the likelihood of gains for specific funds. Investors' primary argument for using Bank NIFTY as a good benchmark is to outperform Bank NIFTY returns. Thus, you may view a fund as a profitable investment if its returns outpace those of the Bank NIFTY index.

Let us assume that a manager of mutual funds has purchased stocks in banks. Additionally, let's say that in a given year, 2020, these generated returns of 18%. Let's say that in 2020 the Bank NIFTY yields a 20 percent yield. The fund in question hasn't been able to beat the Bank NIFTY index in this situation. Overperforming the index, the mutual fund would have been if it had generated returns of twenty-three percent. The performance of investments is typically assessed using this index by mutual fund professionals and retail investors.

Bank Nifty Components:
In the banking and finance industry, the stocks of the ten banking companies included in this index are household names. By weightage, the top stocks included in the Bank NIFTY index are as follows:

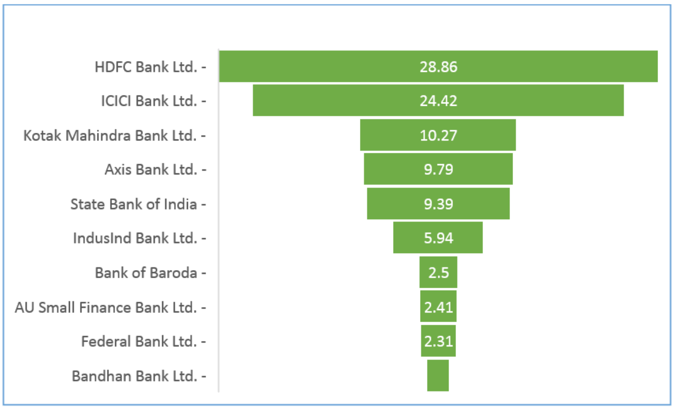


Fig.4 Bank Nifty Index by their weightage

Fig.5 shows the Nifty Bank Index from year 2010-11 to current financial year by analysing this graph even Gross and Net NPAs were arising and sometimes decreasing despite that Nifty Bank index shows the growth on year-to-year basis that is evident in graph. Off course fact that Nifty bank index consists of 12 Top public and private sector banks in India further we can see individual public and private sector bank indices.

Source: www.nseindia.com

Fig.5 Bank Nifty Index

Nifty PSU Bank Index:
NIFTY PSU Bank is a sectoral index that helps understand the performance of the PSU banks in the country. It includes several PSU banks that are listed on the National Stock Exchange (NSE). Investors do not have to go through multiple company sheets, documents, and reports to get an idea of the PSU banking sector. They can view the NIFTY PSU Bank indexs value to gauge the entire industry's performance. The index is made up of stocks of twelve successful banks in the country.

Investors in the country often rely on the NIFTY PSU Bank index for benchmarking. Many investors interested in the banking sector try to replicate the performance of the NIFTY PSU for higher returns. The value of the index has grown in the past few years, indicating the growth of PSU banks in India. While many investors try to replicate the index's performance, some find financial products linked to the NIFTY PSU index. For instance, you can find several ETFs tracking the performance of the NIFTY PSU Bank index.

The NIFTY PSU Bank index value is calculated based on the free-float market cap of each stock. Before we delve deeper, it is essential to understand what the free-float factor for a Nifty psu PSU Bank stock is. You might already know that the current market value of all shares of a company is its market cap. However, all public bank shares include those held by owners, insiders, and promoters. These shares are not available to the general public for trading.

Whether you are using the NIFTY PSU Bank share or the NIFTY Smallcap 100 index, it is essential to know the constituents. The constituents of an index will contribute to its value. It has 10 constituents, which are PSU banks in India. The index tracks the performance of these 10 PSU banks at all times

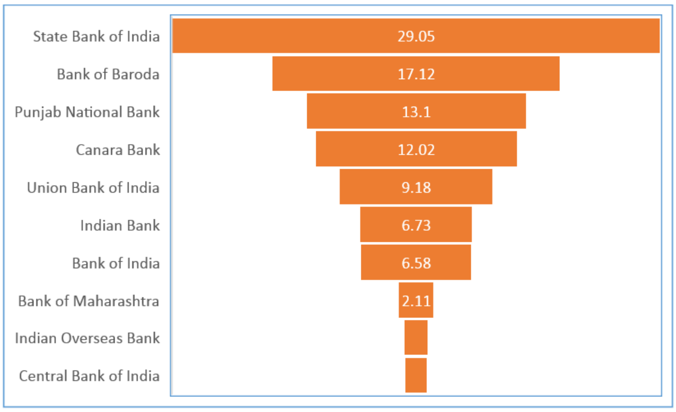


Fig.6 Nifty PSU Bank Index by their weightage

Fig.7 Shows the public sector bank index from 2011 to current financial year is clearly reveals that public sector banks underperform since their NPAs and Asset Quality are not as excellent as private sector banks compare to the graph index. The year 2011 to 2023 PSU Bank Index gave negative return to investors.

Source: www.nseindia.com

Fig.7 Nifty PSU Bank Index

Nifty Private Bank Index:

The Nifty Private Bank Index reflects the health and trends of privately-owned banks in the Indian stock market. This index is not just a tool for investors and analysts; it represents a significant segment of the nation's economy. This article delves into various facets of the Nifty Private Bank Index, including its calculation, stock selection criteria, investment methodology, and objectives.

The index is a financial benchmark measuring the performance of private banking stocks in India listed on National Stock Exchange (NSE). Comprising of a select group of private sector banks, this index provides investors with a comprehensive view of the private banking sector's performance within the larger market.

Typically, the index includes around 10-12 private banks, ensuring a representative sample of the sector's key players. These banks operate across various sectors of the economy, including retail banking, corporate banking, wealth management, and other financial services.

The financial market values the index for a number of reasons. It functions as a trustworthy gauge of the general well-being and effectiveness of the private banking industry. Monitoring the performance of private banks can reveal information about the general health of the economy, as they are vital to economic growth and development.

Moreover, the index allows investors to assess private banking stocks' relative strengths or weaknesses and make informed investment decisions based on their analysis.

Investors closely monitor the Nifty Private Bank Index as it can impact their investment portfolios. By tracking the index, investors gain a deeper understanding of the trends and movements within the private banking sector, enabling them to make more informed decisions.

This index's main goal is to represent the performance of India's private banking industry. It serves as a benchmark for investors and fund managers who want to monitor the performance of private banking stocks. The index, which comprises significant private banks listed on the National Stock Exchange (NSE), aims to provide a comprehensive representation of the sector's performance.

It is crucial in market analysis and investment decision-making. Fund managers and investors use the index as a reference point to evaluate the growth and stability of the private banking sector.

It helps them assess the performance of individual private bank stocks and compare them to the overall sector performance. The index also provides valuable insights into market trends and economic conditions that impact the private banking industry.

Fund managers can make informed investment decisions and adjust their portfolios by monitoring the Nifty Private Bank Index. Investors can use the index as a benchmark to evaluate the performance of their private banking investments and determine whether they are achieving their desired returns.

The Nifty Private Bank Index provides a comprehensive view of the top private banking institutions and can help inform investment decisions. While recent fluctuations may cause concern, it is important to consider the index's long-term trends and overall stability. Keeping a close eye on this index can provide valuable insights for experienced investors and those looking to enter the market.

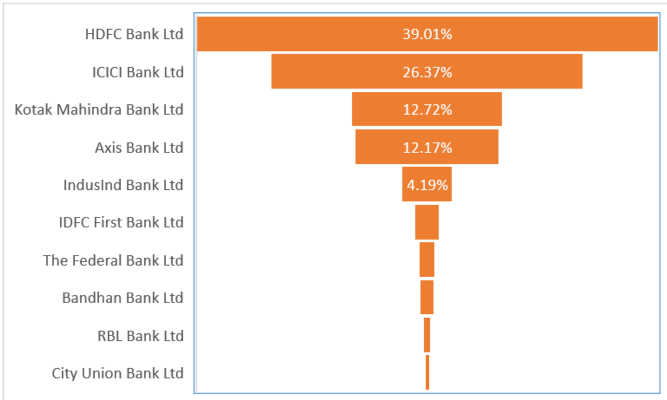
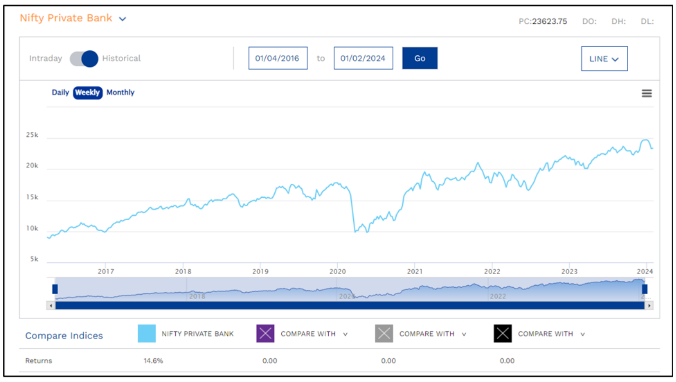


Fig.8 Nifty Private Bank Index by their weightage

Fig.8 The comparison of the Private Sector Bank Index from 2016 to the current fiscal year demonstrates that private sector banks have underperformed due to nonperforming assets (NPAs) and Asset Quality of these banks are good compare to public sector banks from the year 2017 to 2022 Private Bank Index gave positive return to investors, especially

HDFC Bank asset quality and % of Net NPAs to Net Advances ratio is excellent management and fact that Foreign Institutional Investors (FIIs) are the major contributor investors of private sector banks.



Source:www.nseindia.com

Fig.8 Nifty Private Bank Index

FINDINGS

- NPAs are an integral element of the banking system, and public sector banks in particular have bigger NPAs than private sector banks, according to this data.
- Gross NPAs are increases year to year basis gradually but compare to Gross NPAs to Net NPAs there was a proportionate reduction.
- Despite NPAs are in banking system there was a growth in banking indices except public sector bank index it shows the future investment opportunities to both institutions and retail investors.

SUGGESTIONS

- In order to recoup NPAs, government regulators must revise rules and provide banks additional discretion. Strengthen the Insolvency and Bankruptcy Code Act of 2016, the Sustainable Structure of Stressed Assets (S4A) Act of 2016, the Strategic Debt Restructuring Act of 2015, Asset Quality Review of 2015, the SDR Act of 2015, the Corporate Debt Restructuring Act of 2005, and the Pubic ARC Act of 2017 in order to improve the various acts.
- An Asset Management Company or an ARC is needed to quickly achieve the aim of focusing resources on PSBs.
- An investigation of the attainability should be initiated by the government after rigorous discussions on estimation and capital difficulties.
- Fraud Management: The quantity and value of PSB frauds have increased during the last three years.
- All of these innovations must be implemented jointly by the Reserve Bank of India (RBI) in order to identify early warning signs, detect concealed NPAs, and develop internal credit assessment skills. Forensic reviews are also necessary to understand the borrower's motivation.

CONCLUSION

Banks in India have long been concerned about non-performing assets (NPAs). Banks and the economy as a whole will suffer as a result. There is a negative effect on banks' profits since the cash held in NPAs is unavailable for use. Open-area banks also have a greater percentage of non-performing loans (NPA). The NPAs need to be scheduled in order to improve proficiency and benefit. NPAs have been reduced in various ways by the government. This has resulted in a drop in NPAs in the Indian banking industry.

However, there is still a tremendous amount of work to be done. Our banks' non-performing assets (NPAs) are still high by international standards. Having zero rate NPAs is profoundly unthinkable. In any case, essentially Indian banks can have a go at rivalling unfamiliar banks to keep up with worldwide norm. As a result of banks discounting poor advances, some of the decline in NPAs may be attributed to this. The Indian banks should take care to guarantee that they lend money to trustworthy consumers, as counteraction is typically preferred to resolution.

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